Consolidated Financial Statements and Supplementary Information

Sisters of Charity of Leavenworth Health System, Inc.
Years Ended December 31, 2018 and 2017
With Reports of Independent Auditors

Ernst & Young LLP

Building a better working world

Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Financial Statements and
Supplementary Information

Years Ended December 31, 2018 and 2017

Contents

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Report of Independent Auditors

The Board of Directors
Sisters of Charity of Leavenworth Health System, Inc.

We have audited the accompanying consolidated financial statements of Sisters of Charity of Leavenworth Health System, Inc. (SCL Health), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SCL Health as of December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

May 7, 2019

Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Balance Sheets

	December 31 2018	December 31 2017
	(In Millions)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 200.9**	$ 137.4
Current portion of investments	**205.7**	204.6
Accounts receivable:		
Patient (less allowance for bad debts of $102.1 million at December 31, 2017)	**290.9**	311.9
Pledges receivable, net and other	**45.6**	44.5
Third-party settlements	**5.0**	5.2
Inventory	**50.4**	49.5
Prepaids and other assets	**47.0**	37.1
Total current assets	**845.5**	790.2
Investments, net of current portion	**1,631.2**	1,764.3
Assets limited as to use:		
Self-insured risks	**45.8**	41.7
Trustee-held funds	**13.0**	12.9
	58.8	54.6
Land, buildings, and equipment, net	**2,118.8**	2,050.9
Other assets:		
Investments in joint ventures	**26.3**	29.2
Pledges receivable, net	**2.6**	2.6
Other assets	**18.0**	21.9
	46.9	53.7
Total assets	**$ 4,701.2**	$ 4,713.7

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	December 31 2018	December 31 2017
	(In Millions)	
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 109.2**	$ 104.4
Accrued salaries, wages, and benefits	**114.9**	122.1
Accrued interest payable	**25.1**	25.8
Other accrued expenses	**28.3**	27.0
Third-party settlements	**50.3**	50.0
Current maturities of long-term obligations	**179.4**	177.4
Due to broker, net	**15.2**	30.6
Total current liabilities	**522.4**	537.3
Other non-current liabilities:		
Reserve for self-insured risks	**45.8**	41.7
Accrued pension liability	**4.8**	0.6
Accrued swap liability	**13.3**	15.8
Other liabilities	**40.7**	38.3
	104.6	96.4
Bonds payable, other notes, and capital lease obligations, net of current maturities	**1,141.8**	1,173.7
Total liabilities	**1,768.8**	1,807.4
Net assets:		
Net assets without donor restrictions:		
Attributable to SCL Health	**2,857.8**	2,841.9
Attributable to non-controlling interests	**2.1**	2.1
Total net assets without donor restrictions	**2,859.9**	2,844.0
Net assets with donor restrictions	**72.5**	62.3
Total net assets	**2,932.4**	2,906.3
Total liabilities and net assets	**$ 4,701.2**	$ 4,713.7

See accompanying notes.

Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Statements of Operations

	Year Ended December 31,	
	2018	**2017**
	(In Millions)	
Operating revenue		
Net patient service revenue before provision for bad debt		$ 2,594.4
Less provision for bad debts		(51.7)
Net patient service revenue	**$ 2,639.0**	2,542.7
Other operating revenue	**70.6**	63.4
Net assets released from restrictions	**12.0**	29.0
Net gain (loss) from joint ventures	**4.8**	(24.0)
Net gain (loss) from disposal of assets	**(2.0)**	4.7
Total operating revenue	**2,724.4**	2,615.8
Operating expenses		
Salaries and wages	**1,110.4**	1,052.8
Associate benefits	**256.9**	234.7
Supplies	**492.6**	467.3
Other operating expenses	**543.7**	509.4
Depreciation and amortization	**159.8**	155.0
Interest	**56.8**	59.2
Total operating expenses	**2,620.2**	2,478.4
Income from continuing operations	**104.2**	137.4
Non-operating gains (losses)		
Income tax expense	**(1.6)**	(3.5)
Investment income (loss), net	**(78.4)**	205.6
Other	**–**	1.3
Total non-operating gains (losses)	**(80.0)**	203.4
Excess of revenue over expenses	**24.2**	340.8
Less amounts attributable to non-controlling interests	**2.8**	2.6
Excess of revenue over expenses attributable to SCL Health	**$ 21.4**	$ 338.2

See accompanying notes.

Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Statements of Changes in Net Assets

	Year Ended December 31, 2018			Year Ended December 31, 2017		
	Total	**Controlling**	**Non-controlling**	Total	Controlling	Non-controlling
		(In Millions)			*(In Millions)*	
Net assets without donor restrictions						
Excess of revenue over expenses	**$ 24.2**	**$ 21.4**	**$ 2.8**	$ 340.8	$ 338.2	$ 2.6
Gain (loss) from discontinued operations	**5.4**	**5.4**	**–**	(72.1)	(72.1)	–
Amortization of accumulated losses on interest rate swaps	**1.8**	**1.8**	**–**	2.2	2.2	–
Distributions to non-controlling interests	**(2.8)**	**–**	**(2.8)**	(1.8)	–	(1.8)
Pension-related charges other than net periodic pension costs	**(6.2)**	**(6.2)**	**–**	12.9	12.9	–
Net assets released for capital acquisitions	**6.3**	**6.3**	**–**	0.5	0.5	–
Net asset reclassification	**(11.6)**	**(11.6)**	**–**	–	–	–
Other	**(1.2)**	**(1.2)**	**–**	(2.4)	(2.4)	–
	15.9	**15.9**	**–**	280.1	279.3	0.8
Net assets with donor restrictions			**–**			
Contributions	**19.2**	**19.2**	**–**	25.9	25.9	–
Net investment income (loss)	**(1.3)**	**(1.3)**	**–**	2.0	2.0	–
Net assets released from restrictions	**(18.3)**	**(18.3)**	**–**	(29.5)	(29.5)	–
Net asset reclassification	**11.6**	**11.6**	**–**	–	–	–
Other	**(1.0)**	**(1.0)**	**–**	–	–	–
	10.2	**10.2**	**–**	(1.6)	(1.6)	–
Increase in net assets	**26.1**	**26.1**	**–**	278.5	277.7	0.8
Beginning net assets	**2,906.3**	**2,904.2**	**2.1**	2,627.8	2,626.5	1.3
Ending net assets	**$ 2,932.4**	**$ 2,930.3**	**$ 2.1**	$ 2,906.3	$ 2,904.2	$ 2.1

See accompanying notes.

Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Statements of Cash Flows

	Year Ended December 31, 2018	Year Ended December 31, 2017
	(In Millions)	
Operating activities		
Increase in net assets	**$ 26.1**	$ 278.5
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**159.8**	155.0
Amortization of original issue premium and debt issuance costs	**(0.4)**	–
Loss on assets held for sale	**–**	49.1
Provision for bad debts	**–**	56.1
Amortization of accumulated losses on interest rate swaps	**(1.8)**	(2.2)
Restricted contributions	**(19.2)**	(25.9)
Pension-related charges other than net periodic pension costs	**6.2**	(12.9)
Net (gain) loss from joint ventures	**(4.8)**	25.0
Net (gain) loss from disposal of assets	**2.0**	(4.7)
(Increase) decrease in accounts receivable	**20.1**	(75.5)
(Increase) decrease in investments	**127.8**	(314.9)
(Increase) decrease in other assets	**(6.9)**	3.0
Increase (decrease) in liabilities	**(13.1)**	44.6
Net cash provided by operating activities	**295.8**	175.2
Investing activities		
Acquisition of land, buildings, and equipment	**(230.6)**	(185.2)
Proceeds from disposals of land, buildings, and equipment	**0.9**	–
(Increase) decrease in investments in joint ventures	**7.7**	(18.4)
Net cash used in investing activities	**(222.0)**	(203.6)
Financing activities		
Restricted contributions	**19.2**	25.9
Payments on bonds, notes, and capital leases obligations	**(29.5)**	(28.7)
Net cash used in financing activities	**(10.3)**	(2.8)
Net increase (decrease) in cash and cash equivalents	**63.5**	(31.2)
Beginning cash and cash equivalents	**137.4**	168.6
Ending cash and cash equivalents	**$ 200.9**	$ 137.4

See accompanying notes.

1. Organization

The Sisters of Charity of Leavenworth Health System, Inc. (SCL Health) is a Catholic ministry that operates as a Kansas not-for-profit corporation, headquartered in Denver, Colorado. Leaven Ministries is a canonical entity and the sponsor of SCL Health. The mission of SCL Health is to reveal and foster God's healing love by improving the health of the people and communities SCL Health serves, especially those who are poor and vulnerable.

The primary ministry of SCL Health is to witness the Gospel of Jesus by striving to provide high-quality health care in a spirit of justice and charity. Services are provided based on community need and available resources, with special concern for the poor and underserved. The ministry is carried out in many ways, including the provision of health care services at various locations.

SCL Health controls a group of related entities identified as Affiliates (collectively referred to as SCL Health). On November 1, 2017, SCL Health divested St. Francis Hospital in Topeka, Kansas, to The University of Kansas Health System and Ardent Health Services. See Note 3, Discontinued Operations.

The following organizations comprise the Affiliates that are owned by or affiliated with SCL Health directly or indirectly through sole or shared corporate membership or management control. All Affiliates listed below are included in the accompanying consolidated financial statements. Restricted Affiliates is a defined term under the Master Trust Indenture (MTI). See Note 7 for discussion regarding the Restricted Affiliates.

Restricted Affiliates	Location
Colorado	
SCL Health – Front Range, Inc. (d/b/a Lutheran Medical Center)	Denver, Colorado
Lutheran Medical Center Foundation	Wheat Ridge, Colorado
Good Samaritan Medical Center, LLC (GSMC)	Lafayette, Colorado
Good Samaritan Medical Center Foundation	Lafayette, Colorado
Saint Joseph Hospital, Inc. (SJH)	Denver, Colorado
St. Mary's Hospital & Medical Center, Inc.	Grand Junction, Colorado
Montana	
Holy Rosary Healthcare	Miles City, Montana
SCL Health Medical Group – Miles City, LLC	Miles City, Montana
St. James Healthcare	Butte, Montana
St. Vincent Healthcare	Billings, Montana

1. Organization (continued)

Other Affiliates	Location
Kansas	
St. Francis Health Center Foundation[1]	Topeka, Kansas
Caritas Clinics, Inc.	Leavenworth and Kansas City, Kansas
Marian Clinic, Inc.	Topeka, Kansas
Caritas, Inc. and Subsidiaries	Lenexa, Kansas
Colorado	
Saint Joseph Hospital Foundation	Denver, Colorado
SCL Health Medical Group – Denver, LLC	Denver, Colorado
St. Mary's Hospital Foundation	Grand Junction, Colorado
SCL Health Medical Group – Grand Junction, LLC	Grand Junction, Colorado
Platte Valley Medical Center (PVMC)	Brighton, Colorado
Platte Valley Medical Group	Denver, Colorado
Mount St. Vincent Home, Inc.	Denver, Colorado
SCL Home Health Solutions, LLC	Denver, Colorado
SCL Health Partners, LLC	Denver, Colorado
SCL Health Foundation	Denver, Colorado
Montana	
SCL Health Medical Group – Butte, LLC	Billings, Montana
SCL Health Medical Group – Billings, LLC	Billings, Montana
St. Vincent Healthcare Foundation, Inc.	Billings, Montana
St. James Healthcare Foundation, Inc.	Butte, Montana
Holy Rosary Healthcare Foundation, Inc.	Miles City, Montana
Grand Cayman, BWI	
Leaven Insurance Company, Ltd.	Georgetown, Grand Cayman, BWI

[1] Dissolved December 31, 2018

2. Summary of Significant Accounting Policies

Principles of Consolidation

All significant intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements. Joint ventures are consolidated if SCL Health has the ability to control the entity through direct or indirect ownership of a majority voting interest or through management control.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly-liquid debt instruments with a maturity of three months or less when purchased that have not otherwise been classified as assets limited as to use by board designation or other arrangements under trust agreements.

Accounts Receivable

Patient accounts receivable are reported at the amount that reflects the consideration to which SCL Health expects to be entitled in exchange for providing care which is generally based on certain assumptions determined for each payer.

Inventory

Inventory consists primarily of medical supplies and pharmaceuticals and is stated at the lower of cost, generally on the first-in, first-out basis, or net realizable value.

Investments and Assets Limited as to Use

SCL Health holds the majority of its investments through the Comprehensive Investment Program (CIP), an investment pool of funds in which a limited number of unaffiliated nonprofit entities participate. SCL Health does not consolidate the entire investment pool of funds, as a portion of the investments represents the interests of other unconsolidated entities. Accordingly, SCL Health's investments recorded in the accompanying consolidated financial statements at fair value consist only of SCL Health's units of the CIP. Units are measured at fair value based upon the net asset value practical expedient. Following are descriptions of each asset class held within the CIP:

Absolute return: This is a fund of funds with investments in private equity, structured credit, real estate, asset-backed lending, and distressed assets.

Core hedge funds: The hedged equity pool consists of managers whose long-term target is an equity-like return with substantially less volatility than the equity market. The underlying managers may use leverage and short-term securities in implementing their investment style. The hedged equity pool may utilize separate accounts but will generally consist of pooled vehicles, including mutual funds and limited partnerships.

2. Summary of Significant Accounting Policies (continued)

Domestic equity: The domestic equity pool invests in securities listed on the various stock exchanges located in the United States (NYSE, AMEX and NASDAQ). Foreign companies with domestically issued securities or American depository receipts are allowed in the domestic equity pool. The domestic equity pool may consist of pooled vehicles and/or separate accounts.

Domestic fixed income: The fixed-income pool invests in a variety of fixed-income instruments ranging in duration from 0 to 30 years or more. The aggregate duration of the pool is generally five to seven years or less. The fixed-income pool may consist of pooled vehicles and/or separate accounts.

Global equity: The global equity pool invests in securities listed on the major exchanges around the world. Global equity securities may be domiciled in developed and emerging markets and will expose the holders of this fund to currency risk as the equities may be denominated in the local currency of the market in which they trade. The global equity pool consists of pooled vehicles only when custodial and administrative costs associated with separate accounts prove inefficient.

Opportunistic funds: The private equity/opportunistic pool consists of managers that seek to take advantage of specific opportunities, generally in the private markets. The pool will generally make investments with limited liquidity, sometimes known as lock-up funds. The opportunistic pool consists of pooled vehicles only and will usually be accessed through limited partnerships.

Real return: The real return pool consists of a variety of inflation-hedging strategies, including (but not limited to) public and private real estate, inflation-linked bonds, and commodities and commodity-linked equities. The real return pool consists of pooled vehicles only when custodial and administrative costs associated with separate accounts prove inefficient.

Tactical asset allocation: The tactical asset allocation pool consists of managers that are allowed to purchase cash, fixed-income, and equity securities across the globe. The tactical asset allocation pool consists of pooled vehicles only when custodial and administrative costs associated with separate accounts prove inefficient.

Master Limited Partnership (MLP): MLPs are partnerships that derive greater than 90% of their income from real estate, natural resources, and commodities. They are traded on public exchanges like equity securities. This pool invests largely in commodity-related companies and generally consists of pooled vehicles but may include separate accounts when it is most efficient.

Global infrastructure: Global infrastructure consists of equities listed on exchanges in the U.S., developed international, and emerging markets. However, exposure is generally more in the developed economies due to stronger regulations and property rights. The exposure is generally a more defensive, low-volatility return stream given the companies in the portfolio own infrastructure vital to their particular region or industry. Common types of companies include, but are not limited to, toll roads, airports, public utilities, and broadcast towers.

2. Summary of Significant Accounting Policies (continued)

SCL Health invests funds in excess of projected operating requirements. Trustee-held funds represent reserve funds required to be held under the U.S. Department of Housing and Urban Development (HUD) insured mortgage. Self-insured risks funds are set aside by SCL Health to satisfy insurance claims and other related expenditures. Investments in equity and debt securities are measured at fair value.

Investments are considered to be trading securities. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess of revenue over expenses unless the income or loss is restricted by donor or law. Gains and losses with respect to disposition of marketable securities are based on the specific-identification method. Investment income or loss related to net assets with donor restrictions are reclassified to net assets without donor restrictions based on the donor’s intent.

Derivative Financial Instruments

SCL Health uses interest rate swap contracts in managing its capital structure. SCL Health recognizes these derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value. The presentation of changes in the fair value (e.g., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and the type of hedging relationship.

For a derivative instrument that is designated and qualifies as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of net assets without donor restrictions and reclassified into investment income (loss) in the same period or periods during which the cash flows of the hedged transaction are settled. The ineffective portion is recorded in investment income (loss) in the current period. If the hedging relationship ceases to be highly effective or it becomes probable that an expected transaction will no longer occur, subsequent gains or losses on the derivatives are recorded in investment income (loss) and any cumulative amounts included in net assets without donor restrictions are amortized over the life of the derivative into investment income (loss).

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, if purchased, or if donated at fair value at the date of donation. Improvements and replacements are capitalized, and repairs and maintenance are expensed when incurred. Interest incurred in connection with borrowings to finance major construction or expansion of facilities is capitalized during the construction period and subsequently amortized over the lives of the related assets. Depreciation expense is calculated using the straight-line method, which allocates the cost of tangible property equally over its estimated life. Buildings are depreciated over estimated useful lives of 5 to 80 years, land improvements over 2 to 50 years, and equipment over 3 to 30 years. As of December 31, land, buildings, equipment, and accumulated depreciation were as follows:

2. Summary of Significant Accounting Policies (continued)

	2018	2017
	(In Millions)	
Land	**$ 161.0**	$ 149.9
Buildings	**2,218.5**	2,108.9
Land improvements	**171.0**	169.3
Equipment	**1,618.2**	1,503.9
Construction-in-progress	**92.2**	109.4
	4,260.9	4,041.4
Less accumulated depreciation	**2,142.1**	1,990.5
	$ 2,118.8	$ 2,050.9

Asset Impairment

SCL Health considers whether indicators of impairment are present or performs the necessary test to determine whether the carrying value of an asset is appropriate. Impairment charges are recognized in income from continuing operations at the time the impairment is identified.

Investments in Joint Ventures

SCL Health accounts for investments in joint ventures using the equity or cost method, depending on the nature of the investment and extent of influence or ownership by SCL Health.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

> *Net assets without donor restrictions:* Net assets available for use in general operations and not subject to donor restrictions.
>
> *Net assets with donor restrictions:* Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Reclassifications of net assets with donor restrictions on the consolidated statements of changes in net assets represent donor changes or subsequent clarification of the intended purpose of previously recorded contributions or modifications based on donor direction.

2. Summary of Significant Accounting Policies (continued)

Contributions, Bequests, and Grants

Donors' unconditional pledges to give cash and other assets are reported at fair value at the date the promise is received. Donors' conditional pledges to give, and indications of intentions to give, are reported at fair value at the date the condition is satisfied. All contributions, bequests, and grants without donor restrictions are included in excess of revenues over expenses. Contributions, bequests, and grants are reported as donor-restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied (as to either time or purpose), net assets with donor restrictions are reclassified as net assets without donor restrictions and are reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Resources restricted by donors for additions to land, buildings, and equipment whose purposes have been met are recorded as net assets released for capital acquisitions in the consolidated statements of changes in net assets. Donor-restricted contributions where restrictions are met within the same year as received are reported as other operating revenue in the accompanying consolidated statement of operations.

Endowments

SCL Health is subject to the Uniform Prudent Management of Institutional Funds Acts (UPMIFA), as separately enacted in Kansas, Colorado, and Montana. Collectively, these statutes establish requirements for the management, investment, and expenditure of endowed funds. SCL Health has adopted investment and spending policies for the endowments that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the various endowments' assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the endowment investments.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Operating and Performance Indicators

SCL Health's primary mission is to meet the health care needs of its service areas through a broad range of general and specialized health care services, including inpatient, acute care, outpatient, physician, and other health care services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Since substantially all resources are derived from providing health care services, similar to a business enterprise, the following indicators are considered important in evaluating how well management has discharged its stewardship responsibilities:

2. Summary of Significant Accounting Policies (continued)

Operating Indicator (income from continuing operations) **–** Includes all revenue, gains, and other support without donor restrictions; equity income or loss of unconsolidated health care subsidiaries; and expenses directly related to the recurring and ongoing health care operations during the reporting period. Other activities that result in gains or losses peripheral to SCL Health's primary mission are considered to be non-operating. The operating indicator excludes income tax expense, investment income or losses (including changes in unrealized gains and losses on investments), losses on early extinguishment of debt, and gains and losses deemed by management to not be directly related to providing health care services, including contributions or costs associated with the acquisition and disposition of health care entities.

Performance Indicator (excess of revenues over expenses attributable to SCL Health) **–** Includes income from continuing operations and non-operating gains and losses. The performance indicator excludes the amortization of accumulated losses on interest rate swaps, income or loss attributable to non-controlling interests of joint ventures, pension-related charges other than net periodic pension costs, contributions for capital expenditures, and the results of discontinued operations.

Non-controlling Interests in Subsidiaries

SCL Health attributed an excess of revenue over expenses of $2.8 million and $2.6 million for the years ended December 31, 2018 and 2017, respectively, to the non-controlling interests of joint ventures based on contractual terms and the ownership percentage of the non-controlling interests in certain of the consolidated subsidiaries. These amounts are reflected in net assets without donor restrictions in the accompanying consolidated balance sheets, net of distributions.

Income Taxes

SCL Health and its hospital, foundation, and clinic Affiliates have been determined to be exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3). Income tax expenses in the accompanying consolidated statements of operations relate to wholly owned for-profit entities.

On December 22, 2017, the Tax Cuts and Jobs Act (the Tax Act) was enacted. The Tax Act reduces the U.S. federal corporate tax rate from 35% to 21%, provides for a new excise tax on certain compensation of exempt organizations over $1.0 million, and requires the separate calculation of unrelated business taxable income for each trade or business. The impact of the changes associated with the Tax Act were immaterial to SCL Health.

Discontinued Operations

A disposal transaction qualifies for reporting as a discontinued operation if all of the following criteria are met: (i) the disposal group is a component of an entity; (ii) the component meets the held-for-sale criteria, is disposed of by sale, or is disposed of other than by sale; and (iii) the component represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. In the period that a component meets such criteria, its results of operations for current and prior periods are reclassified to discontinued operations, and the assets and liabilities of the related disposal group are segregated on the consolidated balance sheets. See Note 3 for information regarding SCL Health's discontinued operations.

2. Summary of Significant Accounting Policies (continued)

Functional Expenses

SCL Health does not present expense information by functional classification because its resources and activities are primarily related to providing health care services. Further, since SLC Health receives substantially all of its resources from providing health care services in a manner similar to a business enterprise, other indicators contained in the accompanying consolidated financial statements are considered important in evaluating how well management has discharged its stewardship responsibilities.

Reclassifications

Certain balances in the 2017 consolidated financial statements have been reclassified to conform to the current year presentation. The effect of such reclassifications did not change total net assets, net assets without donor restrictions, income from continuing operations, or excess of revenue over expenses.

New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which changes certain financial statement requirements, including how restricted resources are presented on the face of the financial statements, how certain expenses are reported, and requires disclosure of information about available resources and liquidity. SCL Health has adopted the provisions of this ASU effective December 31, 2018 on a retrospective basis. The adoption of this ASU did not have a material effect on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and has subsequently issued supplemental and/or clarifying ASUs (collectively, Accounting Standards Codification (ASC) 606). ASC 606 outlines a five-step framework that intends to clarify the principles for recognizing revenue and eliminate industry-specific guidance. In addition, ASC 606 revises current disclosure requirements in an effort to help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. SCL Health adopted ASC 606 effective January 1, 2018 using the modified retrospective approach to all patient contracts at the date of initial application. As a result of adoption, amounts previously classified as provision for bad debts in the consolidated statement of operations are now reflected as implicit price concessions and therefore included as a reduction of net patient service revenue in 2018. For periods prior to the adoption of ASC 606, the provision for bad debts has been presented consistent with previous revenue recognition standards that required it to be presented separately as a component of net patient service revenue. Similarly, upon adoption of ASC 606, the allowance for bad debts accounts of $102.1 million as of January 1, 2018 was reclassified as a reduction of net patient receivables. Other than these changes on the consolidated statement of operations and consolidated balance sheet, the adoption of ASC 606 did not have a material impact on the consolidated results of operations for the year ended December 31, 2018.

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, and has subsequently issued supplemental and/or clarifying ASUs (collectively, ASC 842). ASC 842 requires the rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the consolidated balance sheets. ASC 842 will require disclosures to help the financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. ASC 842 is effective for SCL Health beginning January 1, 2019 and will be applied using a modified retrospective approach. The primary effect of ASC 842 will be to record right-of-use assets and obligations for current operating leases which is estimated to increase assets and liabilities between $55.0 and $60.0 million on the consolidated balance sheets.

In March 2017, the FASB issued ASU 2017-07. *Compensation – Retirement Benefits (Topic 715).* This ASU provides guidance on the presentation of service cost and other components of net periodic benefit cost in the consolidated statements of operations. This ASU will be effective for SCL Health for the year ended December 31, 2019 and is expected to result in an immaterial decrease to income from continuing operations.

3. Discontinued Operations

On November 1, 2017, SCL Health divested St. Francis Health Center, Inc., St. Francis physician clinics and Medcare (collectively referred to as SFT). In accordance with ASC 205-20, *Presentation of Financial Statements – Discontinued Operations*, the results of operations associated with SFT have been reported as discontinued operations and are included in the accompanying consolidated statements of changes in net assets.

As part of such divestiture, St. Francis Health Center, Inc. withdrew as a Restricted Affiliate under the Master Trust Indenture (as amended and restated), dated as of January 1, 1994, between SCL Health and The Bank of New York Mellon Trust Company, N.A., as master trustee.

3. Discontinued Operations (continued)

Relevant financial information for SFT as of and for the years ended December 31 are as follows:

	2018	2017
	(In Millions)	
Statements of Operations		
Operating revenue:		
Net patient service revenue	**$ 2.4**	$ 175.7
Other operating revenue	**3.0**	5.1
Total operating revenue	**5.4**	180.8
Operating expenses:		
Salaries and wages, and associate benefits	**–**	101.8
Other operating expenses	**–**	101.7
Depreciation and amortization	**–**	–
Asset impairment	**–**	49.1
Total operating expenses	**–**	252.6
Gain (loss) from discontinued operations	**5.4**	(71.8)
Non-operating losses	**–**	(0.3)
Total gain (loss) on discontinued operations	**$ 5.4**	$ (72.1)

The consolidated statements of cash flows includes $5.4 million and $4.7 million of operating, investing, and financing sources of cash related to discontinued operations for the years ended December 31, 2018 and 2017, respectively.

4. Charity Care

SCL Health has a mission to care for those who are poor and vulnerable and provides charity care to patients deemed to be either financially or medically indigent. Policies have been established that define charity care and provide guidelines for assessing a patient's ability to pay. Evaluation procedures for charity care qualification have been established for those situations when previously unknown financial circumstances are revealed or when incurred charges are significant when compared to the individual patient's income and/or net assets.

The cost to provide charity care measured using the consolidated cost to charge ratio was $36.3 million and $35.3 million for 2018 and 2017, respectively. The ratio of cost to charges is calculated based on SCL Health's total operating expenses less other operating revenue divided by gross patient service revenue.

4. Charity Care (continued)

In addition to traditional charity care services, SCL Health has a financial assistance policy that offers discounted services to uninsured patients who do not otherwise qualify for charity. The payments expected from patients are based on rates negotiated with managed care plans, with discounts determined on a sliding scale tied to the federal poverty level. SCL Health's financial assistance policy prohibits the use of collection practices that do not respect the dignity of its patients. Liens on principal residences may only be used when there is clear evidence of the patient's ability to pay, may not be used to force foreclosure or sale, and must be approved by the Affiliate's Board Finance Committee.

SCL Health benefits its communities in a variety of ways. To improve the health status of citizens in the communities served, it provides numerous community education programs that alert the public to various health problems and how they can be addressed. SCL Health offers health promotion and wellness programs and provides specific health care services and programs for senior citizens. Each of these programs helps contain the growth of community health care costs through prevention and positive intervention.

SCL Health addresses problems of the poor in the communities by providing services such as health fairs and screenings at no cost or at substantially reduced rates. It provides prenatal education classes especially for low-income persons and transportation for those who otherwise would have no access to medical services. SCL Health also supports organizations that provide other outreach programs for the poor, including the stand-alone clinics that serve only the medically underserved populations in their service areas.

SCL Health sponsors three stand-alone clinic affiliates (the Clinics) specifically for those individuals who have no other source of health care assistance. Generally, the Clinics do not serve persons with Medicare or any kind of private health insurance. Funding for the Clinics is generated from individual contributions, donations, foundations, grants, and in-kind services. The Clinics create access to health care for those individuals without access, provide channels for physicians to reach the poor, and make a difference in the communities where they are established.

5. Net Patient Service Revenue

Net patient service revenue generally relates to contracts with patients in which the performance obligations are to provide health care services to patients over a period of time. Revenue is estimated for patients who have not been discharged as of the reporting period based on actual charges incurred to date in relation to total expected charges. SCL Health believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. The contractual relationship with patients also typically involves a third-party payer (Medicare, Medicaid, managed care plans, and commercial insurance companies), and the transaction prices for the services provided are dependent upon the terms provided by or negotiated with the third-party payers. The payment arrangements with third-party payers for the services provided to the related patients typically specify payment or reimbursement to SCL Health at other-than-standard charges.

Because all of its performance obligations relate to contracts with a duration of less than one year, SCL Health has elected to apply the option exemption provided in ASC 606, and therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at the end of the reporting period. The unsatisfied or partially satisfied performance obligations referred to above are primarily related to inpatient services at the end of the reporting period. The performance obligations for these contracts are generally completed when patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

5. Net Patient Service Revenue (continued)

Net patient service revenue is reported at estimated amounts from patients, third-party payers, and others for services rendered and includes estimates of implicit price concessions and retroactive revenue adjustments due to audits, reviews, and investigations. Implicit price concessions relate primarily to uninsured patients and patients with co-pays, co-insurance and deductibles and are estimated based on historical collection data. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, or investigations.

The primary sources of consolidated net patient service revenue include Medicare, state-administered Medicaid programs, contracted rate payers (including health maintenance organizations and preferred provider organizations), commercial insurers, self-paying patients, and other sources. The following information provides consolidated net patient service revenue by payer for the years ended December 31:

	2018		**2017**	
	(In Millions)			
Medicare	**$ 842.8**	**32%**	$ 817.3	32%
Medicaid	**252.3**	**10**	316.5	12
Managed care, commercial, and other	**1,487.1**	**56**	1,411.4	54
Self-pay	**56.8**	**2**	49.2	2
	$ 2,639.0	**100%**	$ 2,594.4	100%

Revenue from Kaiser Permanente (see Note 15) represented approximately 21.9% and 23.4% of SCL Health’s net patient service revenue for the years ended December 31, 2018 and 2017, respectively. Approximately 76.0% of SCL Health’s net patient service revenue for the years ended December 31, 2018 and 2017 is derived from Affiliates doing business in the state of Colorado.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates may change. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The Centers for Medicare & Medicaid Services have made inquiries regarding certain reimbursements claimed by SCL Health. SCL Health has adopted internal organizational responsibility and compliance programs to address these concerns and seeks to proactively respond to these requests. SCL Health does not expect that the ultimate resolution of these inquiries will be material to its consolidated financial statements.

6. Investments and Assets Limited as to Use

The majority of SCL Health's investments are composed of its pro rata share of the CIP's funds held for participants and certain other investments such as those investments held and managed by foundations and the captive insurance company. Investments and assets limited as to use, stated at fair value, were as follows:

	2018	2017
	(In Millions)	
Investments held in CIP:		
Cash and cash equivalents	**$ 33.3**	$ 68.2
Domestic fixed income	**560.0**	573.9
Equities	**661.5**	747.0
Real return	**190.0**	182.5
Core hedge funds	**107.1**	95.2
Global infrastructure	**86.5**	97.0
MLP	**74.3**	75.8
Opportunistic funds	**60.7**	48.8
Real estate	**31.5**	37.5
Absolute return	**–**	5.6
Total investments held in CIP	**1,804.9**	1,931.5
Investments held outside of the CIP	**90.8**	92.0
	$ 1,895.7	$ 2,023.5

SCL Health's interest in the CIP represented 81% of the funds held for participants in the CIP at December 31, 2018 and 2017. The real estate investments are not held in units and are wholly owned by SCL Health.

SCL Health's investments are exposed to various kinds and levels of risk. Fixed-income securities expose SCL Health to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed-income securities is affected, particularly those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligation. Liquidity risk is affected by the willingness of market participants to buy and sell given securities. SCL Health's investments are diversified across a broad range of asset classes, durations, and funds to avoid concentrations of risk in any particular company, region, or industry.

Equity securities expose SCL Health to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets, both foreign and domestic. Performance risk is that risk associated with a company's operating performance. Liquidity risk, as previously defined, tends to be higher for foreign equities and equities related to small capitalization companies.

The real estate investments, opportunistic investments, and absolute return funds present similar risks to all of the traditional investments, with some additional risks. Due to the fact that these investments are invested through limited partnerships, private real estate investment trusts, insurance separate accounts, or other limited-access-type vehicles, pricing is infrequent. These investments may also employ leverage that may lead to additional risk of loss. Although these investments are diversified by region and property type, they may at times have concentrations in a particular region or property type, which may cause additional risk. The real estate investment funds are redeemable on a

6. Investments and Assets Limited as to Use (continued)

quarterly basis with 60 to 90 days' notice. Opportunistic funds have restrictions on liquidity withdrawals. Interim liquidity in opportunistic funds is only available after the investments realize profits. As of December 31, 2018, SCL Health has committed $162.9 million to opportunistic funds and has funded $125.3 million of this commitment. In addition, SCL Health had given full redemption notices to investment managers in the absolute return funds with no amounts remaining in the absolute return funds as of December 31, 2018. The fund's remaining assets were sold in the secondary market in the last quarter of 2018 with distributions expected in early 2019. A holdback will be retained until the annual audit is completed and the Fund's remaining expenses are determined. The distribution of the holdback balance is expected to occur in late 2019.

The composition of non-operating net investment income is as follows for the years ended December 31:

	2018	**2017**
	(In Millions)	
Interest and other investment income	**$ 33.1**	$ 31.2
Realized and unrealized gains (losses), net	**(111.5)**	174.4
	$ (78.4)	$ 205.6

7. Capital Structure

Long-term debt consists of the following:

	Annual Interest Rates	**2018**	**2017**
		(In Millions)	
Tax-exempt bond issues:			
2016, due through December 2045	Variable rate, 1.73% and 0.99%	**$ 222.0**	$ 222.0
2013, due through January 2044	4.00% to 5.50%	**300.0**	300.0
2011, due through January 2039	Variable rate, 2.09% and 1.40%	**55.3**	56.4
2010, due through January 2040	3.625% to 5.25%	**670.1**	694.1
Total under the SCL Health MTI		**1,247.4**	1,272.5
PVMC mortgage (HUD-insured)		**70.9**	75.2
Other notes and capital leases		**3.8**	3.9
		1,322.1	1,351.6
Original issue premium, net		**8.8**	10.0
Unamortized debt issuance costs		**(9.7)**	(10.5)
Current maturities of long-term debt		**(179.4)**	(177.4)
		$1,141.8	$1,173.7

7. Capital Structure (continued)

SCL Health is the sole member of an Obligated Group, of which the Restricted Affiliates are included under the terms of an MTI amended and restated as of January 1, 1994. Under the terms of the MTI, debt can be incurred for which the Obligated Group is jointly and severally liable. As of December 31, 2018, there were guarantees of indebtedness by SCL Health outstanding under the MTI of $8.6 million (see Note 17). The Obligated Group has agreed to certain covenants, including, among other things, a specified debt service coverage ratio and debt-to-capitalization ratio, a restriction on certain types of additional indebtedness, and a restriction on asset dispositions in excess of specified amounts. The consolidated results of the Obligated Group and Restricted Affiliates are used to determine compliance with certain covenants of the MTI. As of December 31, 2018 and 2017, SCL Health was in compliance with all MTI covenants.

On November 17, 2017, SCL Health established revolving lines of credit with Bank of America, N.A. and Wells Fargo Bank, N.A. totaling $200.0 million with three-year terms. As of December 31, 2018, there were no outstanding balances drawn on the lines of credit.

On May 1, 2005, PVMC entered into a $118.4 million loan agreement with Adams County, Colorado, to fund the costs of acquiring, constructing, and equipping a replacement hospital facility. PVMC's obligation to repay its debt under the loan agreement is evidenced by a Deed of Trust Note payable to the order of the trustee and secured by a mortgage on the PVMC's fee simple interest in land, buildings, and improvements, along with the PVMC's fixtures, furnishings, and equipment. The mortgage is insured by HUD acting by and through the Commissioner of the Federal Housing Administration under Section 242 of Title II of the National Housing Act and the regulations and rules thereunder. The financing arrangement through HUD requires the PVMC to comply with certain regulatory requirements, including maintenance of a mortgage reserve fund balance of $12.8 million. As of December 31, 2018, the mortgage reserve fund was at $13.0 million.

The Series 2016B and 2016D variable rate demand bonds are backed by a Standby Bond Purchase Agreement with Wells Fargo. The Standby Bond Purchase Agreement supporting the 2016 Series B and D (CO) bonds expires on May 9, 2022. In the event that bonds bearing interest at a weekly rate are not successfully remarketed or if funds are not available for remarketing, Wells Fargo will pay the purchase price for debt that is tendered.

Scheduled principal repayments on long-term debt (excluding original issue premium) are as follows (in millions):

Years Ending December 31	Scheduled	Scheduled With Variable Rate Classified as Current
2019	$ 31.5	$ 179.4
2020	33.2	70.2
2021	34.1	71.1
2022	38.1	38.1
2023	37.9	37.9
Thereafter	1,147.3	925.4
	$ 1,322.1	$ 1,322.1

8. Derivative Instruments

SCL Health has entered into three interest rate swaps, which qualified for hedge accounting treatment until May 12, 2016. Details of the interest rate swaps are outlined below:

Notional amount	$18,885,000	$60,000,000	$18,885,000
Fixed annual payment rate	3.789%	4.215%	3.18%
Variable receiver rate	SIFMA rate	SIFMA rate	68% of LIBOR
Termination date	December 1, 2023	December 1, 2031	December 1, 2023
Reset	Weekly	Weekly	Monthly
Settlement	Monthly	Monthly	Monthly
Classification	Economic hedge	Economic hedge	Economic hedge
Fair value at December 31, 2018	$(0.8) million	$(11.4) million	$(1.1) million
Fair value at December 31, 2017	$(1.6) million	$(12.9) million	$(1.3) million

Amortization of the accumulated loss on the three swaps was $1.8 million for the years ended December 31, 2018 and 2017. The fair value of the swaps is recorded in other non-current liabilities at December 31, 2018 and 2017. The unrecognized accumulated loss on the three swaps was $17.8 million and $19.6 million at December 31, 2018 and 2017, respectively. The objective of the hedges was to offset the variability of cash flows due to the repricing of outstanding debt.

9. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

Certain of SCL Health's financial assets and financial liabilities are measured at fair value on a recurring basis, including money market, fixed-income, equity instruments, and interest rate swap contracts. The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Level 1 primarily consists of financial instruments such as money market securities and listed equities.

Level 2 – Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date. Instruments in this category include certain U.S. government agency and sponsored entity debt securities and interest rate swap contracts.

Level 3 – Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are not observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of assumptions a market participant would utilize to determine fair value.

9. Fair Value Measurements (continued)

The CIP's investments include equities, various fixed-income securities, and alternative investments as detailed in Note 2. As of December 31, 2018, 50% of the CIP's underlying investments were classified as Level 1, 24% as Level 2, and 26% at net asset value. As of December 31, 2017, 55% of the CIP's underlying investments were classified as Level 1, 23% as Level 2, and 22% at net asset value.

The fair value of financial assets measured at fair value on a recurring basis was determined using the following inputs as of December 31, 2018:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In Millions)		
Assets				
Investments and assets whose use is limited:				
Cash and cash equivalents	**$ 5.3**	**$ 5.3**	**$ –**	**$ –**
U.S. government and agency obligations	**12.5**	**–**	**12.5**	**–**
Corporate debt	**4.1**	**–**	**4.1**	**–**
Real estate	**1.1**	**–**	**–**	**1.1**
Mutual funds	**50.0**	**50.0**	**–**	**–**
Equities	**17.8**	**17.8**	**–**	**–**
Investments and assets whose use is limited reported at fair value	**90.8**	**73.1**	**16.6**	**1.1**
Investments and assets whose use is limited reported at net asset value	**1,804.9**			
	$ 1,895.7			
Liabilities				
Obligations under swap contracts	**$ 13.3**	**$ –**	**$ 13.3**	**$ –**

9. Fair Value Measurements (continued)

The fair value of financial assets measured at fair value on a recurring basis was determined using the following inputs at December 31, 2017:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Millions)			
Assets				
Investments and assets whose use is limited:				
Cash and cash equivalents	$ 5.2	$ 5.2	$ –	$ –
U.S. government and agency obligations	12.0	0.8	11.2	–
Corporate debt	3.2	–	3.2	–
Real estate	1.7	–	–	1.7
Mutual funds	51.3	51.3	–	–
Domestic equity	16.7	16.7		
Global/international equity	1.9	1.9	–	–
Investments and assets whose use is limited reported at fair value	92.0	75.9	14.4	1.7
Investments and assets whose use is limited reported at net asset value	1,931.5			
	$ 2,023.5			
Liabilities				
Obligations under swap contracts	$ 15.8	$ –	$ 15.8	$ –

The fair values of the securities included in Level 1 were determined through quoted market prices. The fair values of Level 2 securities were determined based upon the unitized value of CIP holdings and the underlying recent trading activity. The fair values of Level 2 securities related to fixed-income securities were determined through bid prices based on recent trading activity and other relevant information, including market interest rate curves and referenced credit spreads. Estimated prepayment rates, where applicable, are used for valuation purposes provided by third-party services where quoted market values are not available. Level 2 investments also include corporate fixed-income, government bonds, and mortgage and asset-backed securities. The fair values of the interest rate swap contracts are determined based on the present value of expected future cash flows using discount rates approximate with the risks involved. The valuations reflect a credit spread adjustment to the London Interbank Offered Rate (LIBOR) and Securities Industry and Financial Markets Association (SIFMA) discount curves in order to reflect the credit value adjustment for non-performance risk. The credit spread adjustment is derived from other comparably rated entities'

9. Fair Value Measurements (continued)

bonds priced in the market. Due to the volatility of the capital markets, there is a reasonable possibility of changes in fair value and additional gains and losses in the near term subsequent to December 31, 2018. Level 3 includes real estate with fair value determined using recent appraisals and purchase data.

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts and pledges receivable, and current liabilities are reasonable estimates of their fair value due to the short-term nature of these financial instruments.

The methods described above may produce a fair value calculation that may not indicate net realizable value or reflect future fair values. Furthermore, while SCL Health believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table is a rollforward of the financial assets classified within Level 3 of the valuation hierarchy defined above.

	Investments
	(In Millions)
Fair value at January 1, 2017	$ 6.5
Acquisitions	–
Dispositions	(4.8)
Unrealized gains	–
Fair value at December 31, 2017	1.7
Acquisitions	–
Dispositions	**(0.6)**
Unrealized gains	–
Fair value at December 31, 2018	**$ 1.1**

10. Retirement Plans

Defined-Contribution Plans

SCL Health sponsors a defined-contribution retirement plan (the Defined-Contribution Plan), which is a 401(a) defined-contribution retirement plan that covers substantially all associates. Employer contributions to the plan are based on a percentage of eligible compensation for participating associates and a percentage of participating associates’ contributions to a related 403(b) plan. SCL Health funded $46.7 million and $45.2 million related to the Defined-Contribution Plan and recognized those amounts in associate benefits expense during 2018 and 2017, respectively.

10. Retirement Plans (continued)

SCL Health participates in a supplemental executive retirement plan (SERP) under which the organization contributes to certain associates' retirement accounts. The Compensation Committee determines those associates who are eligible to participate in the SERP. SCL Health recognized $4.0 million and $4.1 million of associate benefits expense related to the SERP during 2018 and 2017, respectively. The SERP liability at December 31, 2018 and 2017, was $8.3 million and $8.1 million, respectively, and is included in other long-term liabilities in the accompanying consolidated balance sheets.

Defined-Benefit Plans

SCL Health historically participated in two defined-benefit retirement plans. The first plan relates to SCL Health – Front Range, Inc. (fka Exempla, Inc.). Prior to January 1, 1998, the predecessor to SCL Health – Front Range, Inc. sponsored a defined-benefit pension plan (the SCL Health – Front Range Plan) that covered substantially all of its associates. The benefits were based on years of service and associates' final average compensation. Benefits under the plan have been frozen. SCL Health's funding policy for this plan is to contribute annually the minimum amount under the requirements of the Employee Retirement Income Security Act of 1974, as amended. Contributions are currently intended to provide for benefits attributed to services rendered through January 1, 1998.

The second plan is a single plan with multiple-employer participants that was frozen in 1996 for all participating associates except certain associates of St. James Healthcare. On January 1, 2015, this plan merged with the SCL Health – Front Range Plan, to form a single plan known as the SCL Health Consolidated Retirement Plan (the Plan).

The following sets forth the Plan's funded status and accrued pension liability, as of December 31, as actuarially determined.

	2018	2017
	(In Millions)	
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	**$ 349.2**	$ 347.1
Service cost	**0.3**	0.4
Interest cost	**10.9**	11.3
Actuarial (gain) loss	**(17.3)**	13.7
Benefits paid	**(23.6)**	(23.3)
Projected benefit obligation at end of year	**319.5**	349.2
Change in plan assets		
Fair value of plan assets at beginning of year	**348.6**	329.1
Actual return on plan assets	**(7.1)**	43.3
Contributions	**0.7**	0.8
Benefits paid	**(23.6)**	(23.3)
Expenses paid	**(3.9)**	(1.3)
Fair value of plan assets at end of year	**314.7**	348.6
Accrued pension liability	**$ 4.8**	$ 0.6

10. Retirement Plans (continued)

The actuarial gain of $17.3 million for the year ended December 31, 2018, was primarily driven by the change in the discount rate, which decreased the pension benefit obligation (PBO) liability by $22.0 million. The actuarial loss of $13.7 million for the year ended December 31, 2017, was driven primarily by the decrease in the discount rate.

Included in net assets without donor restrictions at December 31 are the following amounts that have not yet been recognized in net periodic pension cost:

	2018	**2017**
	(In Millions)	
Unrecognized actuarial losses	**$ 124.4**	$ 118.7
Unrecognized prior service costs	**(1.1)**	(1.6)
	$ 123.3	$ 117.1

Changes in plan assets and benefit obligations recognized in net assets without donor restrictions include the following:

	2018	**2017**
	(In Millions)	
Unrecognized actuarial (gains) losses	**$ 10.6**	$ (9.3)
Amortization of actuarial losses	**(4.9)**	(4.2)
Amortization of prior service costs	**0.5**	0.6
	$ 6.2	$ (12.9)

The prior service cost and actuarial losses included in in net assets without donor restrictions and expected to be recognized in net periodic pension benefit during the year ending December 31, 2019 are $3.5 million.

	2018	**2017**
	(In Millions)	
Components of net periodic (benefit) cost		
Service cost	**$ 2.9**	$ 2.6
Interest cost	**10.9**	11.3
Expected return on plan assets	**(19.4)**	(20.7)
Amortization of prior service cost	**(0.5)**	(0.6)
Amortization of actuarial losses	**4.9**	4.2
Net periodic pension benefit	**$ (1.2)**	$ (3.2)

10. Retirement Plans (continued)

Weighted-average assumptions used to determine the PBO as of December 31 are as follows:

	2018	2017
Discount rate	4.28%	3.60%
Expected long-term rate of return	5.51%	5.91%
Rate of increase in future compensation levels (age graded)	1.00 to 10.00%	1.00 to 10.00%

Weighted-average assumptions used to determine pension benefit cost for the year ended December 31 are as follows:

	2018	2017
Discount rate PBO	3.61%	4.08%
Discount rate service cost	4.03%	5.01%
Expected return on plan assets	5.91%	6.25%
Rate of increase in future compensation levels (age graded)	1.00 to 10.00%	2.00 to 8.00%

Plan Assets

The expected return on plan assets reflects historical returns and future expectations for returns in each asset class, as well as targeted asset allocation percentages within the portfolio. The investment strategy is of a long-term nature and is intended to ensure that funds are available to pay benefits as they become due and to maximize the trust's total return at an appropriate level of investment risk.

The target and actual asset allocations by asset category are as follows:

Asset Category	2018 Target Allocation	Actual Allocation 2018	Actual Allocation 2017
Cash	**2%**	**2%**	4%
Fixed income	**75**	**76**	66
Global equity	**14**	**12**	16
Core hedge funds	**–**	**–**	5
Real return	**9**	**10**	9
	100%	**100%**	100%

As described in Notes 2 and 7, SCL Health's investments, which include investments held for its retirement plans, are composed of its pro rata share of the CIP's funds and are recorded at net asset value.

10. Retirement Plans (continued)

Expected Benefit Payments

Expected benefits payments to participants, excluding lump-sum distributions, are as follows (in millions):

2019	$ 24.6
2020	24.7
2021	24.7
2022	24.5
2023	24.2
2024–2028	$ 112.9

11. Endowment

At December 31, 2018, SCL Health's endowment consists of approximately 86 individual funds established by donors to provide annual funding for specific activities. The endowment also includes certain net assets without donor restrictions that have been designated by the Board of Directors.

Management has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2018 and 2017, there were no such donor stipulations. As a result of this interpretation, SCL Health retains in perpetuity (a) the original value of the initial and subsequent gift amounts (including promises to give at fair value) donated to the endowments and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. SCL Health considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the institution
- The investment policies of the institution

11. Endowment (continued)

At December 31, 2018 and 2017, SCL Health had the following endowment net asset composition by fund and type:

	Without Donor Restriction	With Donor Restriction	Total
December 31, 2018			
Board designated endowment funds	**$ 19.7**	**$ –**	**$ 19.7**
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	**–**	**34.1**	**34.1**
Accumulated investment losses	**(0.6)**	**(1.3)**	**(1.9)**
	$ 19.1	**$ 32.8**	**$ 51.9**
December 31, 2017			
Board designated endowment funds	$ 29.5	$ –	$ 29.5
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	–	20.2	20.2
Accumulated investment income	–	1.0	1.0
	$ 29.5	$ 21.2	$ 50.7

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). SCL Health has interpreted UPMIFA to require spending from underwater endowments to cease until the original corpus balance is restored. At December 31, 2018, funds with original gift values of $4.8 million, fair values of $4.5 million, and deficiencies of $0.3 million were reported in net assets with donor restrictions.

Risk Objectives and Risk Parameters

To satisfy its long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A significant portion of the funds are invested to seek growth of principal over time.

11. Endowment (continued)

Spending Policy

SCL Health uses an endowment spending-rate formula to determine the maximum amount to spend from the endowments, excluding those endowments deemed to be underwater, each year. The rate, approved by the Philanthropic Impact Committee, is applied to the average fair value of the endowment investments for the prior three years at December 31 of each year to determine the spending amount for the coming year. During 2018, the spending rate maximum was 5% of the moving average market value. In establishing this policy, SCL Health considered the long-term expected return on the endowments and set the rate with the objective of maintaining the purchasing power of the endowments over time.

Donor intent as specifically stated in the endowment agreement takes precedence over UPMIFA standards or SCL Health's spending policies. If the endowment agreement uses general terminology such as "retain principal" or "spend only income" then spending will follow the SCL Health spending policy.

Changes in endowment net assets for the years ended December 31, 2018 and 2017 were as follows:

	Without Donor Restriction	With Donor Restriction	Total
December 31, 2018			
Endowment net assets, beginning of year	**$ 29.5**	**$ 21.1**	**$ 50.6**
Contributions	**–**	**1.9**	**1.9**
Net investment loss	**(0.6)**	**(1.2)**	**(1.8)**
Distributions pursuant to spending-rate policy of donor agreement	**(1.3)**	**(1.0)**	**(2.3)**
Other transfers and changes	**(8.5)**	**12.0**	**3.5**
Endowment net assets, end of year	**$ 19.1**	**$ 32.8**	**$ 51.9**
December 31, 2017			
Endowment net assets, beginning of year	$ 28.8	$ 19.1	$ 47.9
Contributions	–	1.3	1.3
Net investment income	1.2	1.0	2.2
Distributions pursuant to spending-rate policy of donor agreement	–	(0.1)	(0.1)
Other transfers and changes	(0.5)	(0.1)	(0.6)
Endowment net assets, end of year	$ 29.5	$ 21.2	$ 50.7

12. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at December 31.

	2018	2017
	(In Millions)	
Subject to expenditure for specified purpose:		
Mom and baby/pediatrics	**$ 8.4**	$ 6.6
Cardiovascular	**4.0**	1.6
Community health and wellness	**3.7**	4.0
Oncology and cancer care	**3.7**	3.4
Associate education	**3.6**	5.3
Other	**12.2**	16.8
	35.6	37.7
Subject to the passage of time:		
Assets held under split-interest agreements	**4.1**	3.4
Subject to endowment spending policy:		
Investments in perpetuity, expendable to support:		
Associate education	**3.2**	2.8
Mom and baby/pediatrics	**4.4**	3.3
Hospice and palliative care	**4.0**	4.2
Other	**21.2**	10.9
	32.8	21.2
	$ 72.5	$ 62.3

12. Net Assets with Donor Restrictions (continued)

Net assets were released from donor restriction by incurring expenses satisfying the restricted purpose or by the passage of time or other events specified by the donors as follows for the years ended December 31.

	2018	2017
	(In Millions)	
Subject to expenditure for specified purpose:		
Associate education	**$ 2.4**	$ 0.5
Community health and wellness	**1.9**	2.7
Cardiovascular	**1.5**	0.1
Mom and baby/pediatrics	**1.4**	0.3
Other	**10.1**	20.2
	17.3	23.8
Time restrictions expired	**–**	0.3
Distributions pursuant to endowment spending-rate policy	**1.0**	0.1
	$ 18.3	$ 24.2

13. Liquidity

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following (in millions):

Cash and cash equivalents	$ 200.9
Accounts receivable	290.9
Investments, less amounts due to broker	1,821.7
	$ 2,313.5

As part of the liquidity management plan, SCL Health's strategy is to structure its financial assets to be available for general operating expenses, current liabilities, and other obligations as they become due. Excess daily cash requirements are invested in short-term obligations. SCL Health has access to public and private debt markets and maintains a $200.0 million line of credit to cover any short-falls in liquidity.

14. Insurance Coverage

SCL Health provides an insurance program for various insurable risks. SCL Health obtains insurance through Leaven Insurance Company, Ltd. (Leaven), a wholly owned subsidiary and captive insurance company, as well as third-party insurers and other self-insured methods.

Aggregate excess umbrella coverage of $100.0 million and excess claims-made basis professional and general liability coverage of $100.0 million are obtained through Leaven, which cedes these risks to third-party commercial reinsurers located in the United States, Switzerland, the United Kingdom, and Bermuda. Claims-made general liability coverage provides for a self-insured retention of $1.0 million per claim up to an annual aggregate of $3.0 million. Professional liability coverage provides for a self-insured retention of $2.0 million per medical incident, $20.0 million annual aggregate (shared by all insureds), and a buffer layer of insurance is purchased from Leaven with limits of $3.0 million per medical incident, $5.0 million annual aggregate. SCL Health self-insures and funds its obligations for workers' compensation. In connection therewith, SCL Health (excluding Front Range Healthcare) has obtained excess workers' compensation insurance coverage from outside carriers for individual claims in excess of $750,000. Front Range Healthcare has obtained excess workers' compensation insurance coverage for claims in excess of $750,000. Expenses for professional and general liability and workers compensation coverage totaled $20.8 million and $18.4 million for the years ended December 31, 2018 and 2017, respectively, nd has been included in other operating expenses in the accompanying consolidated statements of operations. The reserves at December 31, 2018 include $8.1 million in other accrued expenses and $45.8 million in the reserve for self-insured risks. The reserves at December 31, 2017 include $10.7 million in other accrued expenses and $41.7 million in the reserve for self-insured risks.

SCL Health offers an associate benefit package to all eligible associates and their dependents. The majority of these benefits are self insured and are provided through the SCL Health Employee Benefit Plan (the Benefit Plan). Contributions to the Benefit Plan are made in amounts determined in accordance with the recommendations of an independent actuary based on past claims experience and other factors. During 2018 and 2017, $120.6 million and $108.1 million, respectively, were charged to associate benefits expenses in the accompanying consolidated statements of operations. The loss reserves recorded for the estimated self-insured Benefit Plan, including estimates of the ultimate costs for both reported claims and claims incurred but not reported, totaled $13.9 million and $11.0 million at December 31, 2018 and 2017, respectively, and represent a current liability within other accrued liabilities.

SCL Health is presently not aware of any unasserted casualty, professional liability, workers' compensation, or health and dental benefit claims that would have a material adverse impact on the accompanying consolidated financial statements.

15. Relationship with Kaiser Permanente

Effective July 1, 2013, SCL Health entered into a three-year renewable/evergreen provider services agreement on behalf of GSMC with a Kaiser Permanente affiliate, specifying the terms under which GSMC provides hospital services to Kaiser Permanente. Among other things, the agreement specifies payment terms and termination conditions and exclusive designation for inpatient services based on a designated geographic service area. This agreement requires periodic renegotiations of rates. The most recent update occurred on January 1, 2018.

In January 2012, SJH entered into a ten-year provider services agreement (the Agreement) with a Kaiser Permanente affiliate. Among other things, the Agreement specifies payment terms and conditions, annual rate inflators, and volume guarantees that provide for additional rate adjustments in the event Kaiser Permanente admission volumes increase or decrease from the specified baseline.

16. Relationship with National Jewish Health

On June 25, 2014, SCL Health signed a joint operating agreement (JOA) with National Jewish Health (NJH). Under the terms of the JOA, SJH and NJH manage and operate their respective clinical operations as a combined business enterprise. SCL Health and NJH each retain ownership of their respective assets, liabilities, equity, revenues, and expenses of their businesses. However, the income/loss of the combined clinical operations is shared 75% with SCL Health and 25% with NJH. The combined clinical operations of the JOA resulted in SCL Health sharing $14.7 million and $9.2 million with NJH for the years ended December 31, 2018 and 2017, respectively. These amounts are reported in net gain (loss) from joint ventures in the accompanying consolidated statements of operations. Additionally, SCL Health recorded an $8.4 million and a $7.0 million payable at December 31, 2018 and 2017, respectively, which is included within other liabilities on the consolidated balance sheets.

17. Commitments and Contingencies

SCL Health has a commitment of $150.6 million to various construction projects in progress. As of December 31, 2018, SCL Health has spent $115.5 million on these projects and has reflected this in land, buildings, and equipment, net.

SCL Health has a $210.0 million commitment for capital investments to PVMC over the next seven years, of which $42.8 million has been satisfied as of December 31, 2018.

17. Commitments and Contingencies (continued)

SCL Health's operating lease expense was $28.9 million and $27.6 million for the years ended December 31, 2018 and 2017, respectively, and is included within other operating leases on the consolidated statements of operations. Scheduled non-cancelable operating lease payments during the next five years and thereafter are as follows (in millions):

2019	$ 27.7
2020	19.8
2021	17.0
2022	11.8
2023	5.1
Thereafter	12.5
	$ 93.9

18. Subsequent Events

SCL Health evaluated events and transactions occurring subsequent to December 31, 2018 through May 7, 2019, the date of issuance of the accompanying consolidated financial statements.

Supplementary Information

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Report of Independent Auditors on Supplementary Information

The Board of Directors
Sisters of Charity of Leavenworth Health System, Inc.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying financial and operating information, sources of patient revenue, capitalization ratio, debt service coverage requirements, financial performance, and utilization are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for that portion marked "unaudited," has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information, except for that portion marked "unaudited" on which we express no opinion, is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst & Young LLP

May 7, 2019

The table below is a summary of the consolidated statements of operations for SCL Health Restricted Affiliates (Restricted) and for SCL Health (Consolidated).

	Year Ended December 31			
	Restricted[1]		**Consolidated[1]**	
	2018	**2017**	**2018**	**2017**
	(In Millions)			
Net patient service revenue	**$ 2,284.7**	$ 2,222.3	**$ 2,639.0**	$ 2,542.7
Other revenue	**42.3**	13.8	**85.4**	73.1
Total operating revenue	**2,327.0**	2,236.1	**2,724.4**	2,615.8
Salaries and wages, associate benefits and other operating expenses	**1,961.3**	1,822.0	**2,403.6**	2,264.2
Depreciation and amortization	**145.7**	139.8	**159.8**	155.0
Interest and amortization	**54.4**	56.5	**56.8**	59.2
Total operating expenses	**2,161.4**	2,018.3	**2,620.2**	2,478.4
Income from operations	**165.6**	217.8	**104.2**	137.4
Investment income (loss), net	**(66.0)**	198.2	**(78.4)**	205.6
Business acquisitions	**–**	5.4	**–**	1.3
Other non-operating losses	**(0.1)**	(1.0)	**(1.6)**	(3.5)
Total non-operating gains (losses)	**(66.1)**	202.6	**(80.0)**	203.4
Excess of revenue over expenses	**99.5**	420.4	**24.2**	340.8
Less amounts attributable to non-controlling interests	**2.8**	2.6	**2.8**	2.6
Total excess of revenue over expenses attributable to SCL Health	**$ 96.7**	$ 417.8	**$ 21.4**	$ 338.2

[1] Excludes discontinued operations.

Sisters of Charity of Leavenworth Health System, Inc.

Capitalization Ratio

December 31, 2018

The following table sets forth the capitalization of SCL Health Restricted Affiliates (Restricted) and SCL Health (Consolidated).

	Year Ended December 31			
	Restricted		Consolidated	
	2018	2017	2018	2017
	(In Millions)			
Long-term debt:				
MTI debt (net of original issue premium and unamortized debt issuance costs)	$ **1,246.5**	$ 1,272.0	$ **1,246.5**	$ 1,272.0
Other long-term indebtedness	**3.8**	4.0	**74.7**	79.1
Total long-term debt	**1,250.3**	1,276.0	**1,321.2**	1,351.1
Less current maturities	**(175.1)**	(173.2)	**(179.4)**	(177.4)
Plus variable portion not scheduled	**148.0**	148.0	**148.0**	148.0
Net long-term debt	**1,223.2**	1,250.8	**1,289.8**	1,321.7
Net assets attributable to SCL Health	**2,628.8**	2,771.0	**2,857.8**	2,841.9
Total capitalization	$ **3,852.0**	$ 4,021.8	$ **4,147.6**	$ 4,163.6
Percent of net long-term debt to total capitalization	**31.8%**	31.1%	**31.1%**	31.7%

Sisters of Charity of Leavenworth Health System, Inc.

Debt Service Coverage Requirements

December 31, 2018

The table below sets forth the debt service coverage of SCL Health Restricted Affiliates (Restricted) and SCL Health (Consolidated).

	Year Ended December 31			
	Restricted[1]		Consolidated[1]	
	2018	2017	**2018**	2017
	(In Millions)			
Income available for debt service:				
Excess of revenue over expenses attributable to SCL Health	**$ 96.7**	$ 420.4	**$ 21.4**	$ 338.2
Business acquisitions	**–**	(5.4)	**–**	(1.3)
Unrealized (gains) losses, net	**205.7**	(127.2)	**214.1**	(136.7)
Depreciation and amortization	**145.7**	139.9	**159.8**	155.0
Interest and amortization	**54.4**	56.5	**56.8**	59.2
Total income available for debt service	**502.5**	484.2	**452.1**	414.4
Annual debt service requirements[2]	**$ 84.4**	$ 83.0	**$ 90.8**	$ 89.4
Actual debt service coverage ratio – all long-term debt[3]	**6.0x**	5.8x	**5.0x**	4.6x

(1) Excludes discontinued operations.
(2) Annual debt service = principal paid + interest paid + 20% of interest and principal for guaranteed debt.
(3) Debt service coverage = total income available for debt service/annual debt service.

Sisters of Charity of Leavenworth Health System, Inc.

Financial Performance

December 31, 2018

The following table highlights the financial results for SCL Health Restricted Affiliates (Restricted) and SCL Health (Consolidated).

	Year Ended December 31			
	Restricted[1]		Consolidated[1]	
	2018	**2017**	**2018**	**2017**
Adjusted operating income margin[2]	**7.5%**	9.7%	**3.7%**	5.9%
Operating income margin[3]	**4.4%**	17.2%	**0.9%**	12.1%
Return on net assets[4]	**3.7%**	15.1%	**0.7%**	11.9%
Debt service coverage[5]	**6.0x**	5.8x	**5.0x**	4.7x
Days' cash on-hand (excluding self-insured risk funds and trustee-held funds)[6]	**338**	373	**295**	323
Cushion ratio[7]	**22.2x**	23.6x	**22.4x**	23.7x

(1) Excludes discontinued operations, except as otherwise noted.

(2) Adjusted operating revenue = net patient service revenue + other operating revenue + net assets released from restrictions.
Adjusted operating income = adjusted operating revenue – total operating expenses.
Adjusted operating income margin = adjusted operating income/adjusted operating revenue.

(3) Operating income margin = excess of revenue over expenses/(total operating revenue + (total non-operating gains (losses)).

(4) Return on net assets = excess (deficit) of revenue over expenses attributable to SCL Health/net assets without donor restrictions.

(5) Debt service coverage = (excess of revenue over expenses – business acquisitions gains (losses), net – change in unrealized gains (losses), net + depreciation and amortization + interest and amortization)/annual debt service.

(6) Days' cash on-hand = (cash and cash equivalents + investments – endowments)/((total operating expenses – depreciation and amortization)/cumulative days).

(7) Cushion ratio = (cash and cash equivalents + investments + trustee-held funds)/annual debt service.

Sisters of Charity of Leavenworth Health System, Inc.

Utilization
(Unaudited)

December 31, 2018

The following table provides utilization statistics for SCL Health Restricted Affiliates (Restricted) and SCL Health (Consolidated).

	Year Ended December 31			
	Restricted[1]		Consolidated[1]	
	2018	**2017**	**2018**	**2017**
Utilization statistics:				
Licensed beds[2]	**1,873**	1,873	**1,971**	1,971
Available beds	**1,734**	1,604	**1,804**	1,674
Operating bed occupancy	**59%**	64%	**58%**	63%
Admissions	**76,903**	78,627	**80,082**	82,072
Patient days	**370,882**	372,879	**382,836**	384,457
Average length of stay	**4.8**	4.7	**4.8**	4.7

(1) Excludes discontinued operations.

(2) Includes acute care, psychiatric, hospital-based skilled nursing beds, and extended care beds as of December 31.

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